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RUEHBJ/AMEMBASSY BEIJING PRIORITY 2162
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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 001306

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E.O. 12958: DECL: 09/30/2018
TAGS: [EPET](#) [PGOV](#) [PREL](#) [RS](#) [TX](#)
SUBJECT: TURKMENISTAN: CONOCOPHILLIPS' PSA AWAITING OK OF
STATE AGENCY DIRECTOR KAKAYEV

REF: A. ASHGABAT 0762
[1](#)B. ASHGABAT 1131
[1](#)C. ASHGABAT 1103
[1](#)D. L. GALLAGHER E-MAIL OF 9/22/08

Classified By: Charge d'Affaires Sylvia Reed Curran. Reasons 1.4(b) and (d).

[1](#)1. (C) SUMMARY: Lukoil's country director for Turkmenistan is frustrated by the continued delay in signing the PSA that they and operations partner ConocoPhillips negotiated in July. Both companies now must wait for new State Agency Director Kakayev to approve the agreement, and then work out modalities such as visas and other logistics with the government. He does not expect the agreement to be signed before the new year, and says that even then, work at the sites is not likely to begin until July at the earliest. END SUMMARY.

[1](#)2. (C) Emboff met with Lukoil's branch office director for Turkmenistan, Andrey Podbolotov on September 29 for an update on the status of the Lukoil/ConocoPhillips PSA. Podbolotov said although all negotiations for the PSA for Caspian blocks 19, 20 and 21 were completed in July (Ref A), the agreement must now await the review of the new head of State Agency for Management and Use of Hydrocarbon Resources, Yagshygeldi Kakayev (Ref B), before it can be signed. In a conversation with emboff, Podbolotov said that even an expectation that the agreements could be signed by early January 2009 is "optimistic," given the pace at which decisions are made in Turkmenistan. He believes that even after the agreements are signed, it could be July before any actual work begins at the sites. Much will depend on how the State Agency implements the services agreed to in the PSA, such as visa issuance to workers and other logistical matters. He feels the State Agency has insufficient staff to manage all of the work that they have.

13. (C) Podbolotov told emboff that he has made an official request to meet with Kakayev, but has not received a response. He has, however, met him informally on a number of occasions, such as during the recent Oil and Gas conference in Baku. The written agreements for the PSAs are complete and now must await a decision from the State Agency. Kakayev reportedly wants to review the agreement and may want to modify some details to ensure that it complies with the new hydrocarbons law (Ref C).

14. (C) According to Podbolotov, the PSA for blocks 19, 20 and 21 has been set forth in two separate agreements: The production of Blocks 19 and 20 is to be carried out by ConocoPhillips, and Block 21 by Lukoil. However, the sales profits from all three will be shared equally by ConocoPhillips and Lukoil investors. He said that the three U-shaped blocks are not located in an area that would be affected by a Caspian Sea demarcation that Iran could declare in the future. Podbolotov said his "major task" is just getting the agreement to move forward, given the investors' huge stake in the project.

15. (C) Podbolotov himself appeared frustrated at both the slow progress in executing the agreements and the state of limbo this places him in. Until the agreement is actually executed, Lukoil cannot rent housing for any of its expat staff. He further has only a short-term Visitor's visa to Turkmenistan which must be renewed monthly and said that the Turkmenistan authorities will not issue him or other Russian nationals on his staff a longer-term work visa until after the PSA is signed. Podbolotov, who has been living since May

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at the President Hotel, where Lukoil's offices are also located, inquired somewhat wistfully about emboff's own housing arrangements in Ashgabat.

16. (C) BIO NOTE: Podbolotov previously served as Lukoil's country director in Azerbaijan (1997-2002) and Uzbekistan (2002-2008). This is the 7th PSA he has negotiated for the company, having previously executed three each with the governments of Azerbaijan and Uzbekistan. He told emboff that he has never before encountered the kinds of bureaucratic delays that he is facing in Turkmenistan. He said he plans to travel to the United States to spend Christmas in Seattle, WA, as he has for the past several years (his son is a student in Vancouver, B.C.). He, therefore, hopes to sign the agreement "after the Orthodox Christmas." END NOTE.

17. (C) COMMENT: Podbolotov is obviously frustrated by the continued delay in executing the PSA, yet seems resigned to the fact that things move slowly in Turkmenistan. Patience is not only a virtue but also a requirement for doing business in Turkmenistan. END COMMENT.
CURRAN